

## Message Text

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R 182211Z JAN 74  
FM SECSTATE WASHDC  
TO ALL DIPLOMATIC AND CONSULAR POSTS

UNCLAS STATE 011948

INFORM CONSULS

FOLLOWING REPEAT ROME 0677 ACTION DEPT TREASURY, INFO  
SECSTATE, USIA, JAN 16,

QUOTE

UNCLAS ROME 0677

E.O. 11652: N/A  
TAGS: OVIP, EFIN,  
SUBJECT: SECRETARY SHULTZ'S SPEECH TO C-20 IN ROME

DEPARTMENT PASS ALL POSTS

1. THERE FOLLOWS THE TEXT OF SECRETARY SHULTZ'S STATEMENT  
TO THE COMMITTEE OF TWENTY WHICH IS TO BE ISSUED IN ADVANCE,  
ON AN EMBARGOED BASIS, FOR RELEASE AT 11:30 A.M. ROME TIME,  
JANUARY 17.
2. QUOTE STATEMENT BY THE HONORABLE GEORGE P. SHULTZ  
THE SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA  
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AT THE FIFTH MEETING OF THE COMMITTEE OF TWENTY  
(THE COMMITTEE ON REFORM OF THE INTERNATIONAL MONETARY SYSTEM  
AND RELATED ISSUES)  
ROME, ITALY  
THURSDAY, JANUARY 17, 1974

3. GENTLEMEN: WE SCHEDULED THIS MEETING BECAUSE WE HAD A COMMON BELIEF THAT WORKING TOGETHER THERE WAS MUCH WE COULD ACCOMPLISH THROUGH IMPROVING OUR INTERNATIONAL MONETARY ARRANGEMENTS. WE FELT WE COULD REACH AGREEMENTS WHICH -- TOGETHER WITH THOSE ACHIEVED ELSEWHERE -- WOULD PROMOTE INTERNATIONAL COOPERATION AND ALLOW EACH OF OUR NATIONS TO DERIVE GREATER BENEFIT FROM INTERNATIONAL TRADE AND INVESTMENT.

4. SINCE THE MEETING WAS SCHEDULED, MOST OF THE NATIONS REPRESENTED HERE -- BOTH MORE DEVELOPED AND LESS DEVELOPED -- HAVE FOUND THE PROSPECTS FOR THEIR ECONOMIC ACTIVITY, PRICES, AND BALANCE OF PAYMENTS SHARPLY WORSENER. ANY ECONOMIC BETTERMENT WE CAN CONTRIBUTE THROUGH INTERNATIONAL COOPERATION IS, THEREFORE, NOW EVEN MORE URGENTLY NEEDED THAN BEFORE. AND THAT INTERNATIONAL COOPERATION IS ALL THE MORE ESSENTIAL, SINCE WE DO NOT KNOW WITH ANY CERTAINTY WHICH NATIONS AMONG US ARE LIKELY TO BE MOST SERIOUSLY AFFLICTED BY THE NEW DEVELOPMENTS.

5. IN THESE CIRCUMSTANCES, THE LOGIC SEEMS TO ME COMPELLING TO ACT AS DO THE MEMBERS OF A MUTUAL INSURANCE SOCIETY WHO RECOGNIZE A COMMON INTEREST IN PLEDGING TO SPREAD THE IMPACT OF A CALAMITY WHICH COULD OTHERWISE FALL WITH CONCENTRATED FORCE ON ANY ONE OF THE MEMBERS. AT THE SAME TIME, OF COURSE, WE MUST NOT ONLY INSURE AGAINST THE RISK. OUR MORE BASIC TASK IS TO DO ALL WE CAN TO REDUCE IT.

6. IT IS IMPERATIVE, THEREFORE, THAT WE MAKE THE MOST OF OUR MEETING. BUT, AFTER A CHANGE IN ECONOMIC CIRCUMSTANCES WITHOUT PRECEDENT IN MAGNITUDE AND SUDDENNESS IN PEACETIME, WE OBVIOUSLY MUST RETHINK OUR PRIORITIES IN THE AREA OF MONETARY REFORM. AND WE MUST ACT IN THE FINANCIAL AREA WITH A FULL REALIZATION THAT OUR RESPONSE TO THE CURRENT THREAT OF ECONOMIC INSTABILITY WILL BE VIEWED AS A FUNDAMENTAL TEST OF OUR WILLINGNESS TO COOPERATE INTERNATIONALLY.  
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7. A NUMBER OF GOVERNMENTS, THE OIL EXPORTERS, HAVE DEMONSTRATED THAT THEY CAN ACT IN PURSUIT OF IMMEDIATE POLITICAL AND ECONOMIC OBJECTIVES. IN DOING SO, THE CLEAR DANGER IS THAT THEY WILL CREATE SEVERE ECONOMIC DISRUPTION FOR OTHER NATIONS AND ULTIMATELY FOR THEMSELVES AS WELL.

8. NOW WE MUST DEMONSTRATE THAT WE CAN ACHIEVE JOINT ACTION AMONG A MUCH LARGER NUMBER OF COUNTRIES AND IN A MORE BROADLY BENEFICIAL MANNER. WE MUST DEVELOP A BROADER COOPERATION WHICH MEETS THE LEGITIMATE ASPIRATIONS OF THE OIL PRODUCERS FOR AN APPROPRIATE LEVEL OF COMPENSATION FOR THEIR CURRENT PRODUCTION AND FOR SECURE AND PROFITABLE OPPORTUNITIES FOR INVESTING THEIR FINANCIAL RESOURCES, WHILE ASSURING THAT THEY IN TURN MEET THEIR RESPONSIBILITIES FOR PRODUCING IN REASONABLE

AMOUNTS WITHOUT CAPRICIOUS MANIPULATION OF SUPPLIES OR PRICES.  
WE MUST DEVELOP A BROADER COOPERATION THAT DOES NOT UNDERMINE  
ECONOMIC DEVELOPMENT IN ANY AREAS OF OUR WORLD.

9. THIS MEETING OF MINISTERS OF FINANCE IS NOT THE PROPER  
FORUM FOR DISCUSSIONS OF ALL THE IMPLICATIONS OF THE NEW  
DEVELOPMENTS IN THE FIELD OF ENERGY. PRIMARY WORK MUST BE  
UNDERTAKEN ELSEWHERE ON AGREEMENTS FOR THE MAINTENANCE OF  
APPROPRIATE LEVELS OF SUPPLIES AND PRICES, ON RESEARCH AND  
DEVELOPMENT, ON CONSERVATION, ON ALTERNATIVE ENERGY SOURCES,  
AND ON EMERGENCY SHARING OF SUPPLIES.

10. PRESIDENT NIXON, TO INSURE THAT ALL THIS WORK IS  
UNDERTAKEN PROMPTLY, HAS ISSUED AN INVITATION FOR A MEETING  
IN WASHINGTON TO MINISTERS OF A NUMBER OF OIL CONSUMING  
COUNTRIES, TOGETHER WITH THE SECRETARY GENERAL OF THE OECD  
AND THE PRESIDENT OF THE EXECUTIVE COMMISSION OF THE EC.  
IT IS THE PRESIDENT'S BELIEF, I KNOW, THAT THIS SMALL GROUP  
CAN LAUNCH MOST EXPEDITIOUSLY THE PREPARATORY WORK WHICH WILL  
PERMIT SUBSTANTIVE AND PRODUCTIVE MEETINGS TO TAKE PLACE IN  
THE NEAR FUTURE ON A BROADER BASIS AMONG REPRESENTATIVES OF  
THE OIL PRODUCERS AND THE OIL CONSUMERS FROM ALL PARTS OF THE  
WORLD. THE ULTIMATE OBJECTIVE IS A SET OF INTERNATIONAL  
ARRANGEMENTS WHICH WILL PERMIT ECONOMIC DEVELOPMENT TO CONTINUE  
ON A SECURE BASIS IN ALL PARTS OF THE WORLD.

(MORE COMING)

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11. THE RECENT PRICE INCREASES AND SUPPLY DISTURBANCES OF OIL  
HAVE CREATED UNCERTAINTY, WHICH -- EVEN APART FROM THE DIRECT  
COSTS INVOLVED -- IS DETRIMENTAL TO ECONOMIC DEVELOPMENT.  
AND, WHEN THE NEWLY ANNOUNCED PRICES ARE APPLIED TO ESTIMATES  
OF OIL CONSUMPTION WHICH ARE IN THE NEIGHBORHOOD OF PREVIOUS  
FORECASTS FOR 1974 AND LATER YEARS, THE ARITHMETIC RESULTS ARE  
STAGGERING. WE HAVE SEEN ESTIMATES, FOR EXAMPLE, OF AN INCREASE  
IN THE COSTS OF IMPORTED OIL IN 1974 OF MORE THAN \$75 BILLION  
JUST FROM THE PRICE INCREASES OF THE LAST FEW MONTHS. SIMILAR  
CALCULATIONS FOR LATER YEARS YIELD EVEN LARGER NUMBERS. IN  
APPRAISING THESE ESTIMATES, HOWEVER, I BELIEVE WE MUST BE  
DRIVEN TO THE CONCLUSION THEY ARE SIMPLY NOT REALISTIC.  
AT THE PRICES USED IN THESE CALCULATIONS THE CONSUMING COUNTRIES  
WILL NOT -- AND IN SOME CASES PROBABLY CANNOT -- IMPORT SUCH  
LARGE VOLUMES. IN THE MORE DEVELOPED COUNTRIES THE COMBINATION  
OF CONSUMER CHOICE AND GOVERNMENT CONTROLS IS BOUND TO RESTRICT  
CONSUMPTION OF IMPORTED OIL SUBSTANTIALLY EVEN IN THE SHORT  
RUN. INCREASINGLY OVER TIME, IMPORTS WILL FALL EVEN FURTHER  
BEHIND EARLIER FORECASTS, NOT ONLY FROM REDUCTIONS IN CONSUMPTION,  
BUT ALSO FROM INCREASES IN PRODUCTION FROM ALTERNATIVE ENERGY  
SOURCES WHICH HAVE BECOME ECONOMIC BY COMPARISON. WITH THE  
ECONOMIC INCENTIVES WHICH NOW EXIST, I SUSPECT WE SHALL  
ALL BE SURPRISED BY THE NEW WAYS OF PRODUCING AND OF SAVING  
ENERGY WHICH "COME OUT OF THE WOODWORK".

12. THE IMPOSSIBILITY OF THE INITIAL PROJECTIONS OF MAMMOTH INCREASES IN IMPORT BILLS FOR OIL IS PARTICULARLY OBVIOUS FOR THE LESS DEVELOPED COUNTRIES WHICH ARE NOT OIL PRODUCERS. I HAVE SEEN ESTIMATES THAT THEIR IMPORT BILL ALONE WOULD INCREASE BY MORE THAN \$10 BILLION IN 1974, AN AMOUNT IN EXCESS OF THE TOTAL OF OFFICIAL ASSISTANCE WHICH THEY HAVE BEEN RECEIVING IN RECENT YEARS. CLEARLY IT WOULD NOT BE POSSIBLE FOR THESE COUNTRIES TO ABSORB SUCH INCREASES. CONCEIVABLY THESE COUNTRIES COULD TURN TO THE OIL PRODUCERS TO BORROW SOME PORTION OF THE INCREASED COST. BUT MANY OF THESE GOVERNMENTS ARE ALREADY NEAR THE LIMITS OF PRUDENT INDEBTEDNESS. MOREOVER IT IS ONE THING TO BORROW FOR A PROMISING INVESTMENT PROJECT WHICH WILL GENERATE INCREASING REVENUES IN THE FUTURE, BUT IT IS A FAR DIFFERENT AND DANGEROUS COURSE TO BORROW LARGE AMOUNTS TO COVER CURRENT CONSUMPTION. OF COURSE, THE MORE DEVELOPED NATIONS UNCLASSIFIED

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MUST MAINTAIN THEIR ASSISTANCE PROGRAMS BUT, IN ADDITION, TO MEET THE NEW NEEDS, SOME OF THE OIL PRODUCERS MUST PROVIDE A SUBSTANTIAL AMOUNT OF GRANT ASSISTANCE IF CURRENT WELFARE AND FUTURE DEVELOPMENT ARE NOT TO BE DRASTICALLY REDUCED IN MANY AREAS WHOSE LEVELS OF ECONOMIC WELFARE ARE ALREADY ABYSMALLY LOW.

13. EVEN AFTER THE INEVITABLE REDUCTION IN FUTURE LEVELS OF IMPORTS, THE INCREASING COST OF IMPORTED ENERGY IN THE NEAR FUTURE WILL STILL BE HUGE. THE SECONDARY EFFECTS IN TERMS OF THE AVAILABILITY OF SUCH DERIVED PRODUCTS AS FERTILIZER MUST ALSO BE RECOGNIZED. THE EXTRA FUNDS PAID BY THE IMPORTERS WILL INEVITABLY MEAN A DECLINE IN THEIR TERMS OF TRADE, A BURDEN UPON THEIR ECONOMIES, AND A HEAVY BURDEN ON EFFORTS TO MANAGE COMMON AFFAIRS COOPERATIVELY. OF COURSE, THE FUNDS PAID BY IMPORTERS WILL NOT DISAPPEAR FROM THE FACE OF THE EARTH. THEY WILL BE USED BY THE RECIPIENTS IN PART FOR INCREASED PURCHASES OF GOODS AND SERVICES AND IN SUBSTANTIAL PART FOR INVESTMENT IN OTHER COUNTRIES. THESE REFLOWS WILL COLLECTIVELY REDRESS THE PAYMENTS POSITIONS OF THOSE COUNTRIES. BUT IN THE NEW CIRCUMSTANCES THERE INEVITABLY IS GREAT UNCERTAINTY AS TO WHICH COUNTRIES WILL RECEIVE THESE REFLOWS.

NATURALLY WE IN THE U.S. GOVERNMENT ARE HOPEFUL THAT OUR BUSINESSMEN WILL BE COMPETITIVE WITH THEIR EXPORTS, AND WE KNOW THAT WE HAVE A LARGE AND SMOOTHLY-FUNCTIONING MARKETS FOR INVESTMENTS. YET, FOR US AS FOR OTHERS, THERE IS GREAT UNCERTAINTY AS TO WHAT WILL BE THE NET IMPACT OF THE NEW OIL DEVELOPMENTS ON OUR PAYMENTS POSITION. WE HAD, AFTER ALL, BEEN SCHEDULED TO BE THE WORLD'S SINGLE LARGEST IMPORTER OF OIL DURING THE NEXT FEW YEARS. THE OIL PRICE INCREASES ARE LIKELY IN THE SHORT RUN TO CAUSE FOR US AN EVEN LARGER PERCENTAGE INCREASE IN THE TOTAL COST OF IMPORTS THAN WILL BE THE CASE FOR MOST MAJOR COUNTRIES IN EUROPE, SINCE OIL LOOMS LARGER

AMONG OUR IMPORTS.

14. FOR ME THESE NEW DEVELOPMENTS HAVE THREE BASIC IMPLICATIONS FOR OUR WORK ON MONETARY REFORM IN THE COMMITTEE OF TWENTY:

15. FIRST, WE MUST DEMONSTRATE THAT WE CAN ACHIEVE  
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INTERNATIONAL ECONOMIC COOPERATIVE AGREEMENTS IN A TIMELY FASHION. IT IS IMPERATIVE THAT WE REACH A SUBSTANTIVE AGREEMENT BY THE DATE WHICH WE HAVE ALREADY SET FOR OURSELVES, JULY 31 OF THIS YEAR.

16. SECOND, IN DOING SO, WE MUST RE-ORDER OUR THINKING TO TAKE FULLY INTO ACCOUNT THE NEW CONDITIONS AND THE NEW UNCERTAINTIES WHICH HAVE BEEN THRUST UPON OUR INTERNATIONAL AFFAIRS. OUR MONETARY REFORM AGREEMENTS MUST NOT ATTEMPT TO IMPOSE UPON THE SYSTEM A RIGIDITY WHICH HAMPERS RESPONSE TO FUTURE DEVELOPMENTS INCLUDING, FOR INSTANCE, THE POSSIBILITY OF A SURFEIT OF ENERGY SUPPLIES AROUND THE WORLD IN A FEW YEARS TIME. RATHER, WE MUST AGREE ON RULES AND PROCEDURES TO INSURE THERE WILL BE PROMPT ADJUSTMENT IN RESPONSE TO DEVELOPING INTERNATIONAL MONETARY IMBALANCES. WE MUST TRY TO AVOID THE MISTAKE OF GIVING TOO MUCH WEIGHT TO PRESENT CONDITIONS BY SIMPLY EXTRAPOLATING THEM FAR INTO THE FUTURE. WHILE SETTING FORTH THE BROAD PRINCIPLES OF A REFORMED SYSTEM, WE MUST RETAIN THE FLEXIBILITY NECESSARY TO ADAPT AND EVOLVE THE SYSTEM TO MEET FUTURE DEVELOPMENTS.

17. THIRD, WE MUST DESIGN FINANCIAL MECHANISMS AND ARRANGEMENTS TO DEAL WITH THE PRESENT PROBLEM. BUT WE MUST BE REALISTIC AND RECOGNIZE THAT THE PRESENT PROBLEM IS LITERALLY UNMANAGEABLE FOR MANY COUNTRIES. THE OIL-PRODUCING COUNTRIES HAVE TO RECOGNIZE THIS SIMPLE FACT AND COOPERATE WITH THE REST OF THE WORLD IN SCALING DOWN THE MAGNITUDE OF THE FINANCIAL PROBLEM TO MANAGEABLE PROPORTIONS. ONCE THAT IS ACCOMPLISHED WE MUST STILL BRING TOGETHER THE COUNTRIES THAT HAVE INVESTMENT OPPORTUNITIES WITH OIL-PRODUCING COUNTRIES WHICH HAVE INVESTIBLE FUNDS, SO THAT MAJOR DESTABILIZING FORCES IN THE WORLD ECONOMY ARE AVOIDED.

18. IF WE MANAGE OUR AFFAIRS PROPERLY, IT WILL PLAINLY MAKE ECONOMIC SENSE ALL AROUND FOR PRODUCERS TO PUMP OIL IN EXCESS OF THEIR CURRENT REVENUE NEEDS SO THAT OIL WEALTH CAN BE PUT TO USES WHICH GENERATE A GREATER RETURN THAT WOULD RESULT FROM LETTING THAT OIL INCREASE -- OR POSSIBLY DECREASE -- IN VALUE WHILE LYING IN THE GROUND. IN FACT, HOWEVER, THAT OIL IS NOT LIKELY TO BE PRODUCED UNLESS THE PRODUCERS OF THE OIL AN

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